

# Continuing the Ferries Division Reform

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Transportation Commission  
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# Discussion Overview

- **Studies and audits**
- **2007 Inheriting a troubled system**
- **2008-2009 Reforms and progress**
- **2010 and beyond**
- **Governor and Legislative directions**
- **Contract negotiations underway**
- **Budget overview**
- **Financial context for fares - Impact of delay**
- **WSDOT fare setting process proposal**
- **Questions**

# Studies and Audits

## **Joint Transportation Committee**

- Washington State Ferries Financing Study, January 2007
- Capital Program Staffing and Administration Cost, April 2008
- Non-Labor, Non-Fuel Operating Cost, July 2008
- Management and Support Operating Costs, July 2008
- System-wide Capital Projects, July 2008
- Washington State Ferries Financing Study II, January 2009
- Auto-Passenger Vessel Sizing and Timing (2009-2030), April 2009
- Long-Range Finances Final Report, May 2009

## **State Auditor's Office**

- Performance Audit, September 2007
- Annual Fiscal Audit

## 2007 Inheriting a Troubled System

- Joint Transportation Committee Washington State Ferries Financing Study I completed (January)
  - Key recommendation was to change from a philosophy of “build to demand” to “plan to manage demand.”
- Paula Hammond appointed as Secretary of Transportation (August)
- State Auditors office performance audit completed (September)
  - Key recommendations included Eagle Harbor management improvements, better internal communication and more transparency, and revise schedule to better reflect demand.
- Four steel electric ferries removed from service for safety considerations (November)
- Ferry director resigns (December)
- Continued work on revised Long Range Plan

# 2008-2009 Reforms and Progress

## Administration/Finance

- David Moseley hired with direction to improve accountability, organizational excellence, vessel and terminal maintenance and preservation, operations, community relations and get new boats under construction (February)
- Reduced staff for capital and operating budgets by 35 FTE (**\$2.2 million/year**)
- Reduced use of temporary employees (**\$222,000/year**)
- Across the board cuts in Operating budgets (**\$2 million/year**)
- Reorganized Ferry Division to manage administrative and operational function more effectively and streamline reporting structure and alignment
- Consolidated IT and Payroll with WSDOT headquarters
- Completed employee injury reduction plan and began to promptly investigate injuries

# 2008-2009 Reforms and Progress

## Operations

- Completed vehicle reservation pre-design report
- Began WINDS dispatch system to more efficiently dispatch crews to better manage overtime and comply with collective bargaining
- Developed flexible crew work rules with ferry unions in response to Coast Guard crew endurance requirements

# 2008-2009 Reforms and Progress

## Vessels

- Developed and Implemented hull inspection program with Coast Guard
- New 64-car ferries designed, awarded and under construction
- Developed and implemented new vessel construction management practices
- Established formal partnership with the selected shipyard
- Replaced on-site consultants in Vessel Engineering to regular staff to reduce costs (**\$ 180,000 saved**)
- Made investments in vessels to achieve fuel conservation
  - Total fuel conservation effort led to **2.1 million gallons savings**

## Terminals

- Changed from terminal expansion program to preservation and maintenance
- Reduced use of consultants in Terminal Engineering by 82%; (**reduced by \$14.8 million**)
- Recalibrated terminal life cycle cost model for budget reduction of **\$106 million over 16 years (yearly average \$6.6 million)**

# 2008-2009 Reforms and Progress

## Community Outreach

- Improved communications and relationships with ferry served communities
  - Distributed weekly e-mailed director reports
  - Held regular community meetings in ferry-served communities
- Held frequent meetings with legislative committees and ferry caucus members.
  - Improved relationships with local elected officials

## Planning

- Assisted JTC ferry studies on management and support costs, capital program staffing, vessel preservation and replacement, and long-term financing.
- Completed Long Range Plan refocusing on vessel preservation/new boats rather than terminal expansion
- Developed long-term operating and capital financial needs (2009-2030)



# Cost Savings Summary

## 2008-2009 savings (per year)

Reduced consultant usage throughout the division	\$14.8
Recalibrated terminal life cycle cost model	\$6.6
Staff reductions in all areas	\$2.2
Reduced use of temporary employees	\$0.2
Across the board cuts in operating budgets	\$2.0
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<b>Total</b>	<b>\$25.8 million annually</b> <b>(\$51.6 million biennially)</b>

### Cost avoidance

Unions forewent bargained and arbitrated salary cost of living adjustments	<b>\$9.16</b> million annually <b>\$18.32</b> million biennially
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# 2010 and Beyond

## Continuing the Reforms for Efficiency

- Implementing Phase I of the vehicle reservation system to better manage demand (Pt. Townsend/Keystone; Anacortes/Sidney; San Juan Islands commercial routes)
- Improving customer service by better use of social media to communicate with customers and promote community events to encourage ridership
- Filling Deputy Chief of Ferries for Construction and Operations position
- Improved field supervision of Eagle Harbor employees who travel throughout the system through random and periodic inspections
- Requested staff and customers to call or email WSDOT with any concerns and cost saving recommendations

# 2010 and Beyond

## Cost Reductions that affect the 11-13 budget

- Eliminated travel time and mileage for special project personnel **(anticipated savings of \$120,000/year)**
- Converting long-term special project positions to regular position
- Eliminating overtime and vacation overlap pay **(average \$11,500/year cost savings based on last 4 years)**
- Terminated lease on one housing unit at Friday Harbor **(\$24,000/year)** and monitoring use to determine if further reductions are possible
- Implemented revised overtime policy to improve management control of overtime use

# Cost Savings Summary

## 2010 savings (per year)

Eliminated travel time and mileage for special project staff	\$0.120
Terminated Friday Harbor lease	\$0.024
Eliminate overlap pay	\$0.012
Staff reductions	\$0.100
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<b>Total</b>	<b>\$0.256 million annually (\$0.512 million biennially)</b>

# Governor and Legislative Direction 2010

- New legislation signed into law: RCW 47.64
  - Arbitrators must consider state's ability to pay
  - Ends "baseball" style arbitration
  - OFM must certify that decisions are financially feasible
- Governor's direction
  - Goal in bargaining: Bring ferry labor contracts more in line with other state government workers
  - Convened a ferries national expert review panel supported by the Passenger Vessel Association - currently in progress (report due in August), reviewing past study implementation and WSF operation for best practice recommendations:
    - Crewing
    - Service
    - Schedule
  - Request State Auditor Office to evaluate:
    - Implementation of performance audit findings
    - Adequacy of timekeeping system
    - Opportunities to improve time capture and payroll processing
    - Review is currently in progress, anticipate audit in September

# Contract Negotiations Underway

- Negotiations for 2011-2013 contracts are underway
  - 9 unions for 11 contract negotiations must be concluded by the end of July
- Arbitration hearings are scheduled for August if needed
- Arbitrator decisions due in September

# Budget Overview - FY2009-11

2010 Supplemental (\$ in millions)

## Operating budget \$426 million

Deck, engine, and terminal operations	<b>\$340</b>	<b>80%</b>
– Fuel	\$79	
– Deck (captains, mates, deckhands (i.e. labor), mileage, radar repairs, lease of Steilacoom II, Jones Act claims)	\$112	
– Engine (engineers, lube oil, bilge and sewage pumping, mileage, Jones Act claims)	\$74	
– Terminal operations (labor, agents, leases, utilities)	\$56	
– Operations mgmt. and support	\$18	
Vessel and terminal maintenance	<b>\$ 63</b>	<b>15%</b>
Management and support	<b>\$ 23</b>	<b>5%</b>
<b>Total</b>	<b>\$426</b>	<b>100%</b>

# Budget overview, FY2009-11

2010 Supplemental (\$ in millions)

## Capital budget \$302.3 million

Vessels	\$213.6
Terminals	\$ 86.3
Management and support	<u>\$ 6.3</u>
<b>Total</b>	<b>\$306.2</b>

**16-year financial plan totals \$2.27 billion**



## 2011-13 Budget Considerations

Near term unavoidable cost expectations (\$ in millions)

	Range	
Fuel cost increase	\$20.0	\$25.0
Operation of 2 <sup>nd</sup> and 3 <sup>rd</sup> , 64 car ferries	1.0	1.0
Insurance, leases	2.0	2.6
Stormwater management, permit requirements	0.3	0.4
<b>Total</b>	<b>\$23.3</b>	<b>\$29.0</b>

+ Employee compensation, agreements,  
settlements and decisions

- UNKNOWN -

# Projected Operating Budget Deficit

(\$ in millions; with planned fare increases)

Projected biennial savings	
Travel time and mileage	\$0.240
Friday Harbor housing	\$0.048
Overlap pay	\$0.023
Staff reductions	\$0.200
<b>Total</b>	<b>\$0.511 (0.5)</b>

Revenues Based on June 2010 Forecast	2009-11	2011-13	2013-15
<b>Sources of Funds:</b>			
Farebox Revenue - no fare increases	292.8	307.8	325.8
2.5% increase each Oct. 2010-24	1.9	13.2	28.2
State taxes, fees, and other revenues	57.9	59.7	61.7
Budget transfers and beginning fund balance	69.5	56.8	0.0
Miscellaneous Revenue (Concessions, etc.)	7.3	8.5	9.2
<b>Total Sources of Funds</b>	<b>429.4</b>	<b>446.0</b>	<b>424.9</b>
<b>Uses of Funds:</b>			
<b>Vessel Operations, excluding fuel</b>			
Vessel operations	186.1	199.4	211.8
Terminal operations	56.3	60.3	64.1
Operations Management and Support	18.5	19.8	21.0
<b>Total Operations, excluding fuel</b>	<b>260.9</b>	<b>279.5</b>	<b>296.9</b>
<b>Fuel</b>	<b>78.8</b>	<b>91.7</b>	<b>98.7</b>
<b>Total Vessel Operations</b>	<b>339.6</b>	<b>371.2</b>	<b>395.6</b>
<b>Maintenance</b>			
Vessel	37.0	39.6	42.1
Terminal	16.8	18.0	19.1
Maintenance Management and Support	9.4	10.1	10.7
<b>Total Maintenance</b>	<b>63.2</b>	<b>67.7</b>	<b>71.9</b>
<b>Management and Support</b>	<b>23.1</b>	<b>24.8</b>	<b>26.3</b>
Marine Employees Commission & OFM charges	0.5	0.6	0.5
Health benefit premiums	1.6	1.6	1.7
<b>Projected biennial savings recent management actions</b>	<b>(0.3)</b>	<b>(0.5)</b>	<b>(0.5)</b>
<b>Total Uses of Funds</b>	<b>427.7</b>	<b>465.3</b>	<b>495.4</b>
<b>Ending Balance</b>	<b>1.7</b>	<b>(19.2)</b>	<b>(70.5)</b>

# Projected Capital Budget Deficit

(\$ in millions)

Based on June 2010 Forecast

	2009-11	2011-13	2013-15
<b>Sources of Funds</b>			
State Taxes and Fees for Ferry Capital	174.1	155.9	70.2
Bond Proceeds (R-49, Nickel & Multimodal GO)	114.0	151.3	3.9
Local Funds	0.2	0.0	0.0
Federal Funds	60.4	36.8	37.2
<b>Total Sources of Funds</b>	<b>348.6</b>	<b>343.9</b>	<b>111.3</b>
<b>Uses of Funds</b>			
Debt Service	31.8	31.8	31.8
Terminal Construction and Preservation	86.3	99.7	77.7
New Vessel Construction (3-64 car, 2-144 car ferries)	135.9	142.9	215.0
Vessel Preservation	77.7	55.1	86.9
Emergency Repairs	6.3	4.6	4.9
<b>Total Capital Projects</b>	<b>306.2</b>	<b>302.3</b>	<b>384.5</b>
<b>Total Uses of Funds Including Debt Service</b>	<b>338.0</b>	<b>334.1</b>	<b>416.3</b>
<b>Ending Balance</b>	<b>10.7</b>	<b>9.8</b>	<b>(305.1)</b>

## Financial Context for Fares - Impact of delay

- Budget assumes fares increase by 2.5% per year beginning October 1
- Cost of delay:
  - **3 months** **\$ 458,000**
  - **6 months** **\$1,005,000**
  - **9 months** **\$1,683,000**
  - **1 year** **\$2,541,000**
- Permanent impact depends on future “catch-up” actions
- 09-11 and 11-13 assumed fare increase of 2.5% per year provides \$15.2 million in revenue for 11-13 biennium

# WSDOT Fare Setting Process Proposal

Implement 2.5% fare increase by Nov. 1, 2010

- July - Take action on a fare proposal at the July meeting
- August – Conduct community outreach with WSDOT representation in August
- September - WSDOT reports results of Passenger Vessel Association study and State Auditor Office review, take action on a fare increase in Omak at September meeting or at a special fare hearing
- September - Hold public hearing and adopt fare increase no later than September 28
- October - WSF notifies transit partners and customers no later than October 1
- November - Adopted fare increase to goes into effect on November 1, 2010

# Questions?

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